

## SUBCOMMITTEE NO. 4

## Agenda

Senator Mike Machado, Chair  
Senator Robert Dutton  
Senator Christine Kehoe



Wednesday, March 28, 2007  
9:30 a.m.  
Room 112

Consultant: Bryan Ehlers

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## **VOTE-ONLY ITEMS**

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**VOTE on Vote-Only Items:**\_\_\_\_\_

## DISCUSSION ITEMS—DEPARTMENTS

### 0840 State Controller

The State Controller is the Chief Financial Officer of the state. The primary functions of the State Controller's Office (SCO) are to provide sound fiscal control over both receipts and disbursements of public funds; to report periodically on the financial operations and condition of both state and local government; to make certain that money due the state is collected through fair, equitable, and effective tax administration; to provide fiscal guidance to local governments; to serve as a member of numerous policy-making state boards and commissions; and to administer the Unclaimed Property and Property Tax Postponement Programs. The Governor's budget funds 1,234.5 positions (including 136.4 new positions) and \$172 million in expenditures.

#### ***VOTE-ONLY ISSUES:***

**1. BCP: Technology, Trade, and Commerce Program Staffing.** The SCO requests \$90,000 General Fund to extend a limited-term position for two additional years in order to collect and account for loan debts due to the state from the former Technology, Trade, and Commerce Program. The SCO assumed all loans, grants, and encumbrances when the TT&C Agency was disestablished in 2003.

**2. BCP: Apportionment Payment System.** The SCO requests \$799,000 in fee revenues collected from various special funds to support ongoing maintenance and operation of the Apportionment Payment System (APS). Five positions would be funded by this assessment and a previously approved General Fund appropriation of \$62,000. The APS project was developed to fix a dangerously overburdened system that endangered timely distribution of apportionments to local agencies. Funding for this activity is provided through a statewide budget item, Control Section 25.50.

**STAFF RECOMMENDATION ON VOTE ONLY ITEMS:** APPROVE AS BUDGETED.

**VOTE on Vote-Only Issues 1 and 2:**

#### ***DISCUSSION ISSUES:***

**1. BCP: Human Resources Management System/21<sup>st</sup> Century Project.** The State Controller's Office (SCO) requests an augmentation of \$38,343,049 and 80.6 one-year limited term positions to complete the system development phase of this project and begin rollout. This request constitutes the fourth year of funding in what is expected to be a six-year, \$140 million project.

**Staff Comment:** This request is part of an ongoing multi-year project to replace existing employment history, payroll, leave accounting, and position control systems. The HRMS will also include a statewide time and attendance capability, greatly enhancing the Controller, Administration, and Legislature's fiscal oversight abilities. For example, it is

expected that the system will eventually capture actual salary savings at each department, replacing the arbitrary five percent standard used statewide today.

A year ago, the Subcommittee questioned the SCO regarding the savings expected from the implementation of the HRMS project, but did not get a clear estimate from the department. The SCO should be asked again to comment on the expected efficiencies resulting from the impending roll-out of the first wave of the system in budget year.

**Staff Recommendation:** APPROVE with BBL requiring the SCO to report on savings from the project. Staff will work with LAO and the SCO to draft language and circulate.

**VOTE:**

**2. BCP: Clean-up of Contaminated Property in Stockton.** The SCO requests \$1.0 million (Leaking Underground Storage Tank Cost Recovery Fund--LUSTCRF) to complete soil remediation on real property that has escheated to the state. The petroleum-contaminated parcel is located in Stockton's Central Business District and is owned by the State of California. The regional water quality control board recently met with the SCO and urged them to quickly mitigate the problem or face possible litigation.

**Staff Comments:** The Giambanco Property (Vintage Car Wash) escheated to the state over 10 years ago as the result of a probate decision by the Superior Court of California (the heirs refused possession of the property because it was contaminated). Subsequently, the property was directed to the SCO to be administered as unclaimed property, and in the intervening decade remediation efforts were funded from several different sources including the General Fund and the Underground Storage Tank Program. However, after 2002-03 funding was no longer available through the Underground Storage Tank Program and the SCO had to absorb subsequent remediation costs (approximately \$170,000). In search of a funding source, the LUSTCRF was suggested by the State Water Resources Control Board because it was no longer being used. The SCO indicates final remediation efforts (scheduled for completion by the close of FY 09-10) will be carried out by the Department of General Services (DGS) through an interagency agreement and will reduce the LUSTCRF fund balance to zero. The SCO will coordinate the sale of the property with the DGS and proceeds will be returned to the Underground Storage Tank Cleanup Fund, less DGS real estate service fees.

The contamination at this site is a liability of the state and therefore this request should be funded. However, the Subcommittee may wish to have the SCO speak to (1) why the state is responsible for cleaning-up environmental contamination created by a private business and how or whether this might be avoided in the future; and (2) why the SCO bears responsibility for this property when the DGS or Department of Toxic Substances Control have significantly more experience managing this type of clean-up. Staff notes, according to this BCP, the SCO requested the DGS take over responsibility for this project, but was refused.

**Staff Recommendation:** APROVE as budgeted.

**VOTE:**

**3. BCP: Mandate Auditors: Conversion of Limited-Term to Permanent.** The SCO requests \$999,000 to make 11 expiring limited-term positions permanent. In 2005-06 the Senate augmented the SCO budget by \$996,000 and 11 positions to analyze older mandate cost claims that were approaching the end of the statute of limitations for initiating claims audits. For every \$1 spent on these audit efforts the mandate claim auditors have identified approximately \$17 in over-claimed costs.

**Staff Comments:** This request should be considered within the larger discussion of mandate reform in which the state is attempting to streamline the mandate process and reduce the number of mandate over-claims submitted. However, while reform proposals remain pending the Subcommittee may wish to consider augmenting this request given the large cost avoidances identified under current mandate audit efforts and the high benefit-cost ratio of General Fund expenditures in this area. The SCO should provide an analysis of the benefit-cost associated with further increasing the number of mandate auditors.

**Staff Recommendation:** HOLD OPEN.

**4. BCP: Resources for the California Automated Travel Reimbursement System's (CalATERS) Statewide Rollout.** The SCO requests \$517,000 (reimbursements) and seven positions to implement a statewide rollout of the CalATERS, an automated travel expense processing system that is expected to result in significant process and cost efficiencies. Staff will train agencies, monitor and maintain systems, and support the Department of Technology Services with transactions associated with rollout.

**Staff Comments:** Under existing statute, departments will retain authority to not institute CalATERS if they convince DOF that they need an exception. Staff has no concerns with this language as the proposed process is consistent with CalSTARS, the statewide accounting system. Departments have the option not to partake in CalSTARS, but must make the case for an exception first. The SCO indicates it expects relatively few departments to apply for exceptions, and, for those that apply and are successful, there will be a process for revisiting the exception and re-evaluating the benefit-cost to the state at a later date.

**Staff Recommendation:** HOLD OPEN pending additional information from the department, including examples of exceptions.

**VOTE:**

**5. BCP: Cannery Business Park Lease Renewal and Expansion Project.** The SCO requests \$2.2 million (\$1.3 million General Fund) and 1 two-year limited term position to enable an office space expansion at the Cannery Business Park facility in Sacramento. The request consists of \$1.1 million for additional space, \$79,000 for staff, and \$996,000 for replacement of modular furniture.

**Staff Comments:** The SCO first occupied the Cannery Business Park facility in 1986, and current conditions are below DGS standards (which comply with California Building Codes and the Americans with Disabilities Act. For example, many aisles are less than the standard of 3'-8" and are frequently crowded with storage items due to limited space.

Additionally, cubicles no longer meet minimum size requirements, and 79 percent of them are 20 years or older and no longer supported by the vendor.

This request is sufficient to fund space expansion to address projected staffing needs through 2010-11.

**Staff Recommendation:** APPROVE the BCP as budgeted.

**VOTE:**

**6. BCP: Salary Increase for Staff Management Auditors.** The SCO requests \$224,000 (\$106,000 General Fund) to support a five percent salary increase for the Staff Management Auditor (Specialist). The SCO has experienced significant recruitment and retention problems because of unfavorable Staff Management Auditor salary comparisons between the SCO and other state and local agencies.

**Staff Comments:** This issue should be subject to the collective bargaining process. Staff understands the SCO has raised the issue to the DPA, but no formal action has been taken. The Subcommittee should await further clarification on this item at a future hearing.

**Staff Recommendation:** HOLD OPEN.

## DISCUSSION ITEMS—DEPARTMENTS

### 0890 Secretary of State

The Secretary of State (SOS), a constitutionally established office, is the chief election officer of the state and is responsible for the administration and enforcement of election laws. The office is also responsible for the administration and enforcement of laws pertaining to filing documents associated with corporations, limited partnerships, and the perfection of security agreements. In addition, the office is responsible for the appointment of notaries public, enforcement of notary law and preservation of certain records with historical significance. All documents filed with the office are a matter of public record and of historical importance. The Secretary of State's executive staff determines policy and administration for Elections, Political Reform, Business Programs, Archives, and Information Technology and Management Services Divisions.

The Governor's budget funds 477.3 positions (including 15.0 new positions) and budget expenditures of \$92.6 million (\$36.2 million General Fund).

#### ***VOTE-ONLY ISSUES:***

**1. BCP: Safe At Home Program.** Chapter 639, Statutes of 2006 (SB 1062, Bowen) expanded the "Safe at Home" Program, which provides support services to victims of domestic violence and stalking, to include victims of sexual assault. The Secretary of State proposes 3.0 positions and \$299,000 for staffing, equipment, and printing materials for program enrollment.

**2. BCP: Repayment for Help America Vote Act Audit Findings.** The Secretary of State requests \$2.4 million General Fund to repay the Federal Trust Fund for illegal HAVA expenditures identified by the U.S. Elections Assistance Commission. A previous repayment of \$536,000 has been approved in the current year, bringing the total repayment to \$2.9 million.

**STAFF RECOMMENDATION ON VOTE ONLY ITEMS:** APPROVE AS BUDGETED.

**VOTE on Vote-Only Issues 1 and 2:**

#### ***DISCUSSION ISSUES:***

**1. Revised Spending Plan for Help America Vote Act Expenditures.** The Governor's Budget includes \$10.6 million in federal fund spending authority to continue implementing the Help America Vote Act (HAVA) in accordance with a revised expenditure plan. A total of \$369 million in federal funds has been appropriated to California for voter equipment replacement, voter education, and related activities. Of the \$10.6 million requested for expenditure in the budget, \$6.4 million will be used to begin implementing the VoteCal statewide voter database, \$1.1 million to provide

election assistance for people with disabilities, \$1.9 million for administration, and \$1.2 million for other elections-related activities.

**Staff Comments:** Given the past history of misuse and delays in encumbering federal funds, the Subcommittee should closely examine the latest expenditure plan, focusing on the rates of expenditure and specific use of funds.

Staff notes that while some HAVA issues still need to be resolved in 2007-08, most HAVA requirements were implemented in time for the 2004 and 2006 elections. For this reason the LAO analysis recommends a reduction of 2.5 PYs (concentrated in legal, media, and contract preparation work) and \$308,000 in administrative expenses to reflect the slow-down in HAVA workload. This reduction would leave 7.5 PYs to close out the remaining workload other than the ongoing database project (see Issue 2 below), and would increase the HAVA reserve for any database cost increases or future operating costs.

**Staff Recommendation:** APPROVE the request less 2.5 PYs and \$308,000 identified in the LAO recommendation.

**VOTE:**

**2. BCP: Voter Registration Database Replacement.** The Secretary of State requests 12 positions (6.5 PYs in budget year) and \$6.9 million in federal fund spending authority to begin the process of replacing the existing CalVoter statewide voter database with a more centralized and technologically advanced VoteCal database. The VoteCal database will contain the name and registration information for every legally registered active or inactive voter in California. After all federal HAVA funds are expended these positions will be funded by state General Fund.

**Staff Comments:** This request is consistent with an approved Feasibility Study Report, and the SOS is optimistic this project can be implemented for less than the original cost estimate because California will learn from other states who have already implemented similar systems. However, this request still represents an unknown out-year General Fund pressure and the Subcommittee will want to better understand the extent of the commitment represented by this request.

Due to the undetermined future needs of this project and the fact that these needs will eventually be General Fund-supported, the Subcommittee will also want to consider making the requested positions limited-term. Once the VoteCal database is in place, the SOS will have a better idea of its ongoing staffing needs and can return with a request for permanent positions.

**Staff Recommendation:**

- 1) APPROVE as budgeted, but make positions limited-term.
- 2) Request the SOS to provide an estimate of the year in which federal HAVA funds are expected to be exhausted, as well as an estimate of the out-year General Fund costs.
- 3) Consider reporting language to ensure the SOS keeps the Legislature updated on revised estimates of out-year GF costs.

**VOTE:**



**3. Informational Issue: Update on HAVA Source Code Review.** The Legislature included \$760,000 in the April 2006 spending plan for the SOS to perform reviews of e-voting machine source code.

**Staff Comments:** The LAO indicates that, as of mid-January 2007, no such review had occurred.

**Staff Recommendation:** Request the SOS to provide an update to the Subcommittee detailing specifically how it intends to review source code and when the expenditures will be made.

**4. BCP: Secretary of State Headquarters Repair and Shift to an Individual Rate Building.** The Secretary of State requests \$1.7 million to effect repairs to the Secretary of State's headquarters building in Sacramento, including replacement of the building roof, the establishment of a special repairs fund, and \$15,000 for recurring maintenance for the security keycard system. The Secretary of State also requests to shift the annual budgeting of the headquarters building to an individual rate building, which will enable the establishment of a special repairs reserve account to fund future repairs to the building.

**Staff Comments:** The Secretary of State/Archives Building was financed through a lease-purchase revenue bond, and the SOS is currently responsible for the debt service for this building. This arrangement is atypical for state-owned facilities, as bond-funded state facilities are usually set up as Individual Rate buildings with a rental rate established specific to the building. In this respect, the request would create an arrangement more consistent with the state's policy on operating state office buildings.

The SOS headquarters is approximately 12 years old, and the roof (which now leaks) was supposed to have a lifespan of at least 15 years. Although staff does not dispute that the requested repairs are necessary, the Subcommittee may wish to inquire with the SOS and/or Department of General Services as to whether the requested money will be spent on higher quality construction materials than were originally used.

This item has a conforming issue in the DGS budget (see page 30).

**Staff recommendation:** HOLD OPEN until after the DGS budget is heard.

## ***DISCUSSION ITEM—Tax Agency Information and Data Exchange***

Three state agencies play a major role in tax administration and collection. The Franchise Tax Board (FTB) administers the Personal Income Tax and the Corporation Tax; the State Board of Equalization (BOE) administers the Sales and Use Tax (SUT), fuel taxes, and various other excise taxes and also oversees administration of the local property tax; and the Employment Development Department (EDD) collects state and federal income taxes and payroll taxes through the withholding process. Each of these agencies maintains multiple information systems that, in most cases, were developed for use by that agency in a specific tax program. In contrast, most states have a single revenue department making information and data exchange between their tax systems easier. Nevertheless, relatively cheap computing power and advances in software provide opportunities for a "virtual consolidation" of the tax agencies in terms of their ability to share and exchange data both to improve collections and reduce the "Tax Gap" and to simplify paying taxes and reduce duplication for taxpayers.

**LAO Report.** In January, the Legislative Analyst's Office (LAO) released A Report on Tax Agency Information and Data Exchange. The report responded to supplemental report language adopted in conjunction with the 2005-06 Budget Act requiring the LAO to examine (1) the extent of information and data exchange among the state's three main tax administration agencies, and (2) the impediments to, and opportunities for, increasing the current level of cooperation in this regard. The language placed an emphasis on how additional cooperation could serve to improve overall tax compliance as well as aid in tax enforcement activities. LAO prepared their report using information provided by the tax agencies.

**LAO's Findings.** The tax agencies identified a number of short-term steps that could be taken to facilitate the exchange and use of certain tax-related data and information. Specifically, the tax agencies identified a variety of data items which are now being collected by state agencies but which are not being shared. They also highlighted various other sources of information collected by the federal government as well as by private entities that would be of use in improving tax compliance.

Over and above a greater sharing of data that are already collected, LAO identified several programs that could be established that would enhance the ability of the agencies to develop, obtain, and share data. Virtually all of these programs would entail additional funding, primarily for the purpose of addressing technological constraints of existing data systems.

**Alternative Approach to Single Taxpayer ID.** The Legislature specifically asked LAO to consider the value of developing a single taxpayer identification number to help ease the difficulties tax agencies have in sharing and cross-matching data. Although the use of a single taxpayer ID could greatly simplify things for the taxpayer, LAO found that it raises a number of significant administrative issues, as well as identity-theft concerns. LAO thus concluded that a single taxpayer identification number may not be the most appropriate means of linking the ability of the tax agencies to share data. Instead, LAO found that increasing the ability of the agencies to cross-match taxpayer information using their existing systems in conjunction with an alternative technology approach—with the flexibility, this would maintain for each of the agencies—seems most appropriate.

**LAO Recommendations.** Based upon their findings in the report and in order to ensure that timely progress is made in the area of information and data sharing, LAO recommends that BOE, FTB, and EDD appear jointly before the budget subcommittees to respond to the report and to identify the following:

1. Those cost-efficient, data-sharing actions they are planning to undertake or could undertake immediately (that is, which require no additional funding or statutory changes).
2. Relevant information and recommendations regarding other initiatives that may require legislative actions (such as statutory changes or added funding).
3. An alternative technology approach, such as using software overlays, to link existing independent tax information systems— including its costs, benefits, and time requirements.

LAO recommends that the three agencies also should collectively identify their preferred means for coordinating data-related decisions and activities amongst themselves, such as use of the already established Strategic Tax Partnership or other alternative approaches.

**Staff Comments:** Both the BOE and the FTB indicate they continue to work closely with the EDD to address the information and data exchange issues raised above. The Subcommittee will want to hear an update from the BOE and the FTB on their progress in identifying areas for improved efficiency, but may also wish these departments to identify next steps toward capturing savings and/or cost avoidances in their operations.

**Staff Recommendation:** HOLD OPEN.

## DISCUSSION ITEMS—DEPARTMENTS

### 0860 Board of Equalization

The State Board of Equalization (BOE), the Franchise Tax Board (FTB), and the Employment Development Department (EDD) are the state's major tax collection agencies. The BOE collects state and local sales and use taxes and a variety of business and excise taxes and fees, including those levied on gasoline and diesel fuel, alcoholic beverages and cigarettes, as well as others. BOE also assesses utility property for local property tax purposes, oversees the administration of local property tax by county assessors, and serves as the appellate body to hear specified tax appeals, including FTB decisions under the personal income tax and bank and corporation tax laws.

The Governor's budget funds 3,800.5 positions (including 80.9 new positions) and proposes \$390.2 million in total expenditures (\$218.1 million General Fund).

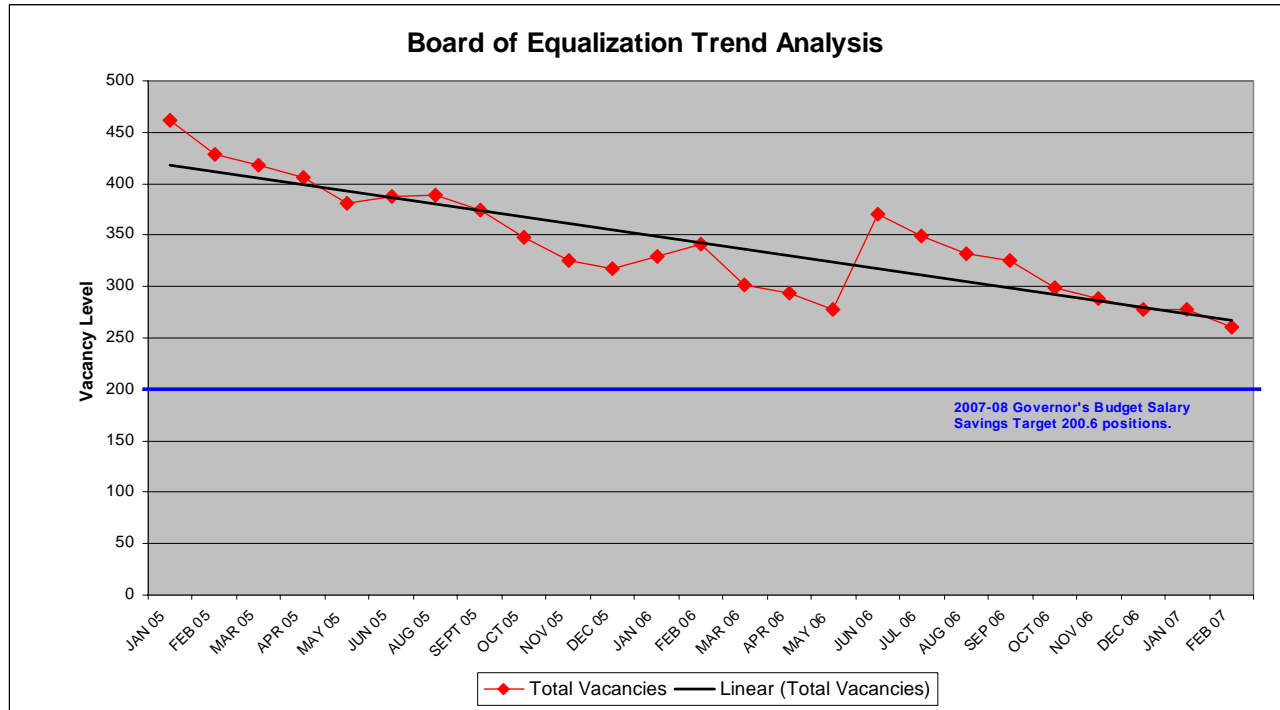
#### **DISCUSSION ISSUES:**

**1. Informational Issue: Recruitment and Retention.** In recent years, the BOE has experienced problems in recruitment and retention, resulting in high vacancy rates, particularly among auditors, that threaten state revenues. In response to concerns in both the Senate and Assembly, the BOE has provided the following report on recent efforts to address these issues:

#### ***Report by the BOE***

*The Board of Equalization is pleased to announce the accomplishment of a variety of activities that enhance the agency's ability to recruit and retain a qualified workforce. The figure below shows that since January 2005 there has been a consistent lowering of the vacancy rate, except for periodic vacancy increases resulting from new positions added through the budget.*

*From Fiscal Year (FY) 2006-07 to date, the average vacancy rate is 7.9 percent, down from 9.2 percent in FY 2005/06. After factoring out the required salary savings, the estimated excess vacancy rate for FY 2006-07 would be 2.9 percent. Of the total vacancies, there were only 38 Tax Auditors, 42 Tax Technicians and 33 Business Taxes Representatives.*



**Steps That Were Taken.** The BOE took several crucial steps to reduce its vacancies and associated salary savings, including the following:

- In consultation with SPB, BOE developed and implemented "Direct Recruitment Events for the high turnover entry-level positions of Tax Auditor, Business Taxes Representative, and Tax Technician in selected district offices.
- BOE implemented a streamlined examination process and recruitment process that initiates contact with candidates immediately upon their successful completion of the on line examination. The Personnel Management Division staff requests official verification of transcripts from the candidates to verify the minimum qualifications and eliminate unnecessary hiring interviews for unqualified candidates who fail to meet the minimum qualifications.
- BOE performed an in depth review of the hiring procedures and practices and identified improvements that could be achieved to expedite the internal processing of hiring documents.
- BOE implemented automatic Hire Above Minimum provisions for new State service hires to Tax Auditor classification as approved by DPA.
- BOE increased the number of agency part time recruiters from 21 to 35 throughout California and in the BOE's out-of-state offices
- BOE used professional resources of companies such as City Career Fair, Peninsula Job Fair, and Cal Jobs for recruitment in previously untapped markets

*and placed print advertisements in the California Job Journal, which is read by over 286,000 job seekers each month.*

- *BOE used the facilities of the Orange County One Stop Job Center and its publicity resources that include 381 partners, such as Veteran Affairs groups, schools, case workers, and job developers.*
- *BOE implemented examination planning, preparation classes, and other training programs to assist employees in achieving greater success, both in their current positions and for future promotional opportunities.*
- *BOE identified companies that have announced layoffs (for example Intel) and participated, where possible, in their job fair events.*

**Future Strategies.** *The BOE will continue to implement key components of its succession and workforce planning program by: profiling its workforce flow; assessing and improving current recruitment, hiring and retention strategies; identifying, evaluation, and implementing government and industry best practices; researching potential candidate demographics and adapting strategies to attract candidates.*

*We continue our efforts to partner with the control agencies (i.e., the Department of Personnel Administration and the State Personnel Board) to reform the State's civil service system that includes streamlining and automating current processes.*

*BOE recently completed preparatory work for the Business Taxes Administrator, Supervisory Tax Auditor, and Business Taxes Compliance Supervisor classification revisions for the potential consolidation of classes. Also, we completed preparatory work for the Tax Technician, Tax Auditor, Associate Tax Auditor, and Business Tax Compliance Specialist to explore the expansion of deeper classes and the possible consolidation of these classes.*

**Staff Comments:** Staff notes that BOE is likely to have excess salary savings from vacancies during the current year. However, if recent trends continue, the board would reduce vacancies down to around 200 (about 5 percent), which is the average number assumed in the budget for 2007-08.

The board should provide the Subcommittee with its assessment of whether the vacancy reduction trend will continue and any barriers that it faces in continuing that trend. Additionally, staff is awaiting a response from the BOE clarifying apparent discrepancies between the vacancies noted above and those reported by the SCO.

**2. BCP: Consumer Use Tax Section Revenue Enhancement.** The Administration requests to make permanent six limited-term positions first established in 2005, at an ongoing cost of \$313,000 (\$203,000 General Fund). These positions will ensure collection of use tax in the compliance program for vehicles, vessels, and aircraft. Based on the last two years of program activity, the BOE anticipates annual revenues of \$4.3 million, a 14-1 benefit-cost ratio.

**Staff Comments:** The Administration estimates that continuing this staff will generate \$4.3 million in additional General Fund revenues in 2006-07, reflecting anticipated hiring delays and an estimated six-month training period for the staff to learn their job duties.

However, LAO points out that these six positions have already been filled and have completed their training period. The BOE and LAO now agree that General Fund Revenues from this proposal will be \$1 million higher (along with \$430,000 in additional local Use Tax revenue).

**Staff Recommendation:** APPROVE the staffing as budgeted and score an additional \$1 million in GF revenue.

**Vote:**

**3. BCP: Electronic Waste Recycling Fee Workload Adjustment.** The budget includes a reduction of 20.7 positions and \$1.3 million (E-Waste Recovery and Recycling Account). Additionally, the BOE seeks to extend six expiring limited term positions for an additional two years, at a cost of \$230,000. This realignment is intended to align budgeted dollars and staffing with a revised workload estimate of e-waste registered retailers.

**Staff Comments:** The LAO originally recommended against extending the remaining 6 limited-term PYs on a workload basis. However, the BOE has provided additional workload justification, and LAO now recommends approval of the budget-staffing request. As a result of the workload review, however, BOE has identified an additional \$1.96 million of fee revenue that will be collected in 2007-08 for support of the E-Waste Recycling Program.

**Staff Recommendation:** APPROVE staffing as budgeted and direct the Department of Finance to score the additional \$1.96 million in fee revenue for the Electronic Waste Recovery and Recycling Account.

**Vote:**

**4. E-Filing Infrastructure Project.** The BOE has been converting to electronic technologies in the filing of tax returns and remittances, as well as the processing of these returns. The LAO points out that e-filing has advantages to both taxpayers (minimizing record keeping requirements, increased filing accuracy, and reduced costs) and to tax agencies (decreased processing time, reduced storage costs, fewer staff needed, improved data accuracy, and easier information exchange for enforcement and compliance purposes).

**E-filing Reduces Costs.** Processing electronically filed returns and remittances costs a fraction of the costs associated with paper documentation, according to the LAO. For example, FTB reports that about 4,800 electronic remittances are processed per staff hour compared with only 62 paper remittances processed per staff hour. A study completed for the BOE in January estimated the average cost of processing paper returns to be \$4.69 and that e-filing has the potential to significantly reduce this cost. In addition to processing savings, additional savings typically occur because the electronic submissions of remittances and returns are more accurate than their paper counterparts, thus requiring less follow-up contact with the taxpayer to correct inaccuracies.

**BOE Can Make More Progress.** LAO points out that BOE has made some progress in the electronic technologies and automation area but still has a substantial way to go. For instance, BOE just recently implemented electronic filing for single-location taxpayers

(which account for a small proportion of total State Use Tax—SUT—liabilities), and has yet to offer electronic filing options for multiple-location taxpayers. Hence, while the agency receives about 60 percent of total SUT payments through electronic funds transfer, electronic tax filings represent only a small share of total tax returns.

**Budget Proposes E-Filing Expansion.** The Governor's Budget proposes to expand BOE's SUT electronic filing program to include businesses filing multiple returns and others and to automate the delinquent prepayment process. To accomplish these goals, the administration requests two positions and \$1,460,000 (\$949,000 General Fund and \$511,000 reimbursements) in 2007-08, and three positions and \$431,000 (\$280,000 General Fund and \$151,000 reimbursements) in 2008-09.

**No Savings Estimate Associated With this Proposal.** The Governor's proposal represents stage three of a plan to move the agency and the taxpayers it serves towards a more electronically integrated business model. However, estimates of savings to the state associated with this electronic migration have yet to be quantified. The administration's proposal indicates that savings associated with this proposal would be identified upon completion of BOE's Tax Return Processing Assessment, at which time the department would develop a cost-savings model that could be applied to the tax return processing areas affected by a reduction in paper return filings. The assessment was completed January 5, 2007, and although savings in either the medium- or long-term have yet to be identified, BOE indicates that it has begun work towards developing a cost-savings model.

**LAO Withholds Recommendation Pending Savings Estimate.** LAO withholds recommendation on the BOE's electronic filing infrastructure enhancements and recommends that the board report at budget hearings regarding the status of efforts to develop a cost-savings model, together with estimates of medium- and long-term savings and costs associated with increased conversion of existing registrations, tax filings, and manual processing to electronic systems.

**Staff Comments:** The board should respond to LAO's comments and update the Subcommittee regarding the status of a savings estimate for its e-filing expansion proposal.

**Staff Recommendation:** HOLD OPEN.

**5. BCP: Tax Payment Delinquencies: Public Disclosure (AB 1418).** In accordance with Chapter 716, Statutes of 2006 (AB 1418, Horton) the Board of Equalization seeks 1 two-year limited term position and \$106,000 (\$69,000 General Fund) to implement AB 1418. This bill required the BOE and Franchise Tax Board to compile and make public on a quarterly basis a list of the 250 largest delinquent taxpayers.

**Staff Comments:** Although the top 250 tax delinquents that meet the conditions of AB 1418, in the aggregate, owe approximately \$300 million, the BOE indicates that approximately 3 of the 250 largest delinquent taxpayers represent active accounts. Staff notes that the department has not provided any compelling evidence that this program will generate revenues commensurate with the resources requested.

**Staff Recommendation:** REJECT.



## **VOTE-ONLY ISSUES:**

**1. BCP: U.S. Customs Program Augmentation.** The Administration requests 15.5 limited term positions, one permanent position, and \$1.1 million (\$696,000 General Fund) for the purpose of developing and investigating tax leads turned over by the U.S. Customs service. U.S. Customs electronic records tell the BOE where out of state imports were shipped in state, information that can be compared to use tax payments. Based on the activity in this program over the last two years the BOE anticipates revenues of \$15.2 million to be generated, a 13-1 benefit-cost ratio.

**2. BCP: Alcohol Beverage Tax Program Workload.** The Administration requests two permanent positions and \$244,000 General Fund to restore resources for conducting field audits, collections, tax return processing, refunding and other tasks associated with administering the alcohol beverage tax. The BOE asserts that current staffing levels are inadequate to complete workload and generate the full amount due in annual alcohol beverage tax revenue. The BOE anticipates these resources will generate \$1.3 million, a 5.7 to 1 benefit-cost ratio.

**3. BCP: Tire Fee Increase Workload.** The Administration requests to make permanent 5.8 currently limited term positions at a cost of \$485,000 (California Tire Recycling Management Fund), in order to strengthen the BOE's ability to collect the tire fee. Collection efforts from the current positions have yielded a more than 60 to 1 benefit-cost ratio. Additionally, the Administration seeks statutory authority to shift reimbursement for BOE staff work from reimbursement by the California Integrated Waste Management Board to a direct appropriation from the California Tire Recycling Management Fund.

**4. BCP: International Fuel Tax Agreement (IFTA) Workload Growth.** The Administration requests 11 new positions, including 8 new positions and 3 three-year limited term positions, funded by redirecting existing funding of \$1 million from the Motor Vehicle Fuel Account. This proposal will better enable the BOE to meet national IFTA membership requirements and protects the estimated \$3.0 billion in matching federal funds. The BOE anticipates these new positions will generate an additional \$2.7 million annually for the Motor Vehicle Fuel Account.

**5. BCP: Underground Storage Tank Maintenance Fee Program**  
The Administration requests 7.5 positions, including 2 two-year limited term positions, and \$771,000 (Underground Storage Tank Fund) to address an ongoing workload backlog in the Underground Storage Tank Maintenance Fee Program. The fees collected in this program are used for grant and loan programs to assist underground storage tank program owners to replace or repair their tanks, as well as enable the state to remediate abandoned underground storage tank sites. The BOE anticipates these resources will generate \$9.8 million in new revenues in 2007-08 and 2008-09, followed by revenues of \$5.4 million ongoing.

**6. BCP: Fuel Tax Compliance Projects.** The Administration requests authority to spend \$974,000 (\$317,000 Federal Trust Fund, \$657 reimbursements) in the budget year and \$2.9 million (\$909,000 Federal Trust Fund, \$2.0 million reimbursements) over three years for fuel tax compliance projects. These projects include: (1) membership in the Joint Operation Center for National Fuel Tax Compliance, (2) procuring services of

contract programming staff to enhance the BOE's Automated Schedule Processing System, (3) and participating in federal/state fuel tax task force meetings and training.

**7. BCP: Expanded Environmental Fee Program (Assembly Bill 1803).** In accordance with Chapter 77, Statutes of 2006 (AB 1803, Committee on Budget), the Board of Equalization requests reimbursement authority to recover costs associated with implementing and administering statutory changes to the BOE's Environmental Fee Program. Five new positions and \$483,000 (fee reimbursements) are needed to carry out these changes. AB 1803 expanded the types of businesses subject to the environmental fee to include limited liability companies, limited partnerships, limited liability partnerships, general partnerships, and sole proprietorships.

**8. BCP: Tobacco Products Manufacturer and Importing Licensing (AB 1749).** In accordance with Chapter 501, Statutes of 2006 (AB 1749, Horton) the Board of Equalization seeks 8.1 positions and \$1.2 million (\$181,000 General Fund) to implement AB 1749. This bill expanded the licensing and reporting requirements for tobacco manufacturers and importers. The BOE expects additional revenue of approximately \$4.2 million annually, a 6 to 1 benefit-cost ratio.

**STAFF RECOMMENDATION ON VOTE ONLY ITEMS:** APPROVE as budgeted vote-only items 1-8.

**VOTE on Vote-Only Issues 1-8:**

## DISCUSSION ITEMS—DEPARTMENTS

### 1730 Franchise Tax Board

The Franchise Tax Board (FTB) administers state personal income tax and corporation taxes for the State of California, collects debt on behalf of other state agencies and local entities, and performs audits of campaign statements and lobbyist reports authorized by the Political Reform Act of 1974. The FTB is tasked to correctly apply the laws enacted by the Legislature; to determine the reasonable meaning of various code provisions in light of the legislative purpose in enacting them; and to perform this work in a fair and impartial manner, with neither a government nor a taxpayer point of view. The Governor's budget funds 5,174.5 positions (including 240.7 new positions) and expenditures of \$623.4 million (\$518 million General Fund).

#### ***DISCUSSION ISSUES:***

**1. Informational Issue: Recruitment and Retention.** In recent years, the FTB has experienced problems in recruitment and retention, resulting in high vacancy rates, particularly among auditors, that threaten state revenues. In response to concerns in both the Senate and Assembly, the FTB has provided the following report on recent efforts to address these issues:

#### **Report by the FTB:**

##### **Status of Auditor Attrition**

*Our Audit Program has experienced a 5-6% Attrition Rate in the last 6 months. 42 of the 708 auditors, program specialists and related administrators have either moved on or retired*

- *26 of the 42 (or 4%) of staff has moved on*
- *16 of the 42 (or 2%) has retired*

*The audit staff that has moved on has gone to:*

- *The IRS or other Government agency (receiving a 10-25% pay increase)*
- *The private sector (receiving a 100% pay increase)*

##### **Historical Attrition**

- *FY 04/05 – a reduction of 36 audit staff*
- *FY 05/06 – a reduction of 37 audit staff*
- *FY 06/07 – a reduction of 26 audit staff YTD*
  - *Retirements are up 400% from FY 05/06*
  - *We will lose 45 audit staff this year if current attrition rate continues*

##### **Status of Audit Vacancies**

- *100 vacancies (in April 2006)*

- 45 vacancies (in March 2007, with plans to hire 8 staff)
- Our goal is to fill all existing vacancies with the June 2007 hiring class

### **FTB Efforts to Improve Audit Recruitment and Retention**

- In early 2006, we doubled our audit recruitment staff, which in turn:
  - Increased our visibility on college campuses
  - Increased the number of qualified applicants for Internet Tax Audit exam
    - In November 2006, we implemented an Internet Tax Auditor exam
  - We already have 450 candidates on list vs. 250 candidates in previous years
- The open Associate Tax Auditor (ATA) list is complete
  - We are hiring our first new class ever of ATA's in Spring, 2007
- We are constantly monitoring our audit workloads for changes in complexity to justify promotions, and have increased the number of audit promotions since the beginning of this fiscal year.
- We are currently working with BOE and EDD on joint task forces addressing:
  - Hiring new auditors at the top step of the Tax Auditor range
  - Coordinating recruitment efforts to optimize hiring pool and the use of recruitment funds.
- In January 2007, an additional step was added to the auditor, program specialist, and administrator classifications to improve our ability to retain long-term employees. Although this may increase auditor longevity overall, it is unlikely that this step is having any current effect on attrition numbers. We are proposing a deep-class of Tax Auditor and ATA classes to SPB and DPA this spring.

### **Current Recruitment and Retention Efforts in Collections**

We currently have one full-time recruiter representing Collections. We are making every effort to increase our visibility throughout the state. We have a presence at University business programs, job fairs, career fairs. This has resulted in a 20% increase in applications received over the last 18 months.

The Compliance Representative Exam is planned to go on line in March/April 2007.

- A new certification list will be issued weekly.
- Collections currently has an Employee Retention Taskforce
  - Captures vacancy/turnover rate data from FY 2002/03 forward
  - Conducts exit interviews upon employees leaving area or agency
  - Exit interview information is utilized for staff retention planning

**Staff Comments:** The FTB should provide the current vacancy rates for audit and collection staff and compare them with last year, and should additionally identify the overall salary savings percentage so far this year and how it compares with the amount assumed in the Governor's Budget for 2007-08 (5.9 percent)?

**2. Additional Savings from E-Services.** The LAO points out that information provided by FTB indicate ongoing growth in electronic filing of returns and remittances. This growth has occurred as a combined result of statutory mandates for tax practitioners as well as a natural migration from paper to electronic filing by individual and business taxpayers as society becomes increasingly computer oriented. The department reports that it expects 9 percent annual growth in electronic remittances through 2008, and 4 percent to 7 percent annual growth in electronic returns over the same period.

Reflecting the growth in electronic filings and remittances—and the large savings associated with the use of this technology—the department’s budget for processing has been reduced almost every year since 2001-02. These annual reductions ranged from \$400,000 to about \$1 million.

The 2007-08 budget includes savings of \$298,000 due to increased electronic filing for the Personal Income Tax (PIT). However, no budget reductions were proposed related to increased electronic remittance processing or reductions in mailed and printed tax forms and booklets due to more use of online forms and other information. The board is also expanding the Business Entities E-File (BEEF) system, but did not account for any savings associated with increased electronic filing of BEEF returns.

**LAO Recommends \$500,000 Reduction to Capture Savings.** Based on information provided by FTB, LAO recommends a reduction of \$500,000 for 2007-08 to account for savings associated with increased use of business-entity electronic return processing, electronic remittance processing, and associated reductions in the amount of paper printing and mailings.

**Staff Comments:** The FTB indicates that it would prefer to retain the savings in order to offset the potential impact of the unallocated reduction that is proposed in the Governor’s Budget (\$100 million in Control Section 4.05 plus an additional \$46 million in Control Section 4.04).

Staff recommends approving the reduction to reflect the true nature of the savings.

**Staff Recommendation:** APPROVE the LAO recommendation and reduce the FTB budget by \$500,000.

**3. BCP: Legal Support for Abusive Tax Shelters.** The Administration requests \$1.3 million and 10 new positions to address Abusive Tax Shelter workloads.

**Staff Comments:** The LAO indicates the workload justifies the 10 positions requested, but notes concern that the future needs of this program have not been clearly articulated by FTB. The Subcommittee will want to investigate whether this request represents the tip of a staffing iceberg, and should request the FTB to provide a clearer estimate of out-year resource needs, including auditors and collectors. Although attorneys may be necessary to process the up-front workload in this program, collectors and auditors will undoubtedly be necessary as well; however, staff notes that the FTB requested and received permission in mid-2006 to exchange collector positions for attorneys.

**Staff Recommendation:** HOLD OPEN.

**4. BCP: Restoration to Customer Service Level.** The administration requests \$1.3 million and 27 positions to restore staffing levels in the Franchise Tax Board's Contact Centers and related supporting workloads. These call center positions were eliminated in recent years to meet budget reduction targets and the department now asks that they be restored in order to restore taxpayer and tax practitioner customer service and meet a response target of responding to 95 percent of all calls with 80 percent answered within 2 minutes.

**Staff Comments:** Given the Administrations' extensive emphasis on taxpayer enforcement actions over the past few years, the Subcommittee will look closely at this proposal and other means to better facilitate taxpayers' contact with FTB.

Staff notes that the request the FTB submitted to the Department of Finance (DOF) was aligned with the service target outlined. However, the DOF reduced the original request to a level that could be offset by internal savings (see Elimination of Tax Clearance Certificate (AB 2341) issue below). The FTB indicates the request before the Subcommittee would improve the level of calls answered from 73 percent to 83 percent, thereby generating estimated revenue acceleration of \$18 million.

Before approving this request, the Subcommittee should ask the FTB to clarify the level of service this request would provide (including estimated wait times). Additionally, the Subcommittee may wish to request the FTB to provide an analysis of the relative costs and benefits of a higher level of service.

**Staff Recommendation:** HOLD OPEN.

**5. BCP: Tax Payment Delinquencies: Public Disclosure (AB 1418).** In accordance with Chapter 716, Statutes of 2006 (AB 1418, Horton) the Franchise Tax Board seeks one, 1-year limited term position and \$144,000 General Fund to implement AB 1418. This bill required the BOE and Franchise Tax Board to compile and make public on a quarterly basis a list of the 250 largest delinquent taxpayers in excess of \$100,000.

**Staff Comments:** The FTB estimates that this request would generate \$30 million in 2007-08 and \$5 million thereafter; however, the Administration has not scored these savings because the DOF believes the FTB's estimate is speculative. The Subcommittee will want the FTB to highlight the differences between its implementation of this legislation and the BOEs, particularly with regard to its much larger revenue estimates, and will want the DOF to discuss its concerns with the FTB's revenue estimates.

**Staff Recommendation:** HOLD OPEN.

**6. BCP: E-Commerce Portal Infrastructure.** The Administration requests \$1.5 million General Fund and one position to replace the current Internet infrastructure at the Butterfield Way campus in Sacramento and provide redundancy to accommodate growth in the FTB's e-commerce programs. These programs facilitate taxpaying by providing online filing services and other capabilities previously done by mail or phone. This request represents year one of a three-year project of which total costs are expected to be \$4.5 million.

**Staff Comments:** Staff has requested but not received a description of this project's current vulnerabilities and hazards.

**Staff Recommendation:** HOLD OPEN.

**7. Centralized Reverse Proxy Services.** The Administration requests to redirect \$298,000 in e-file savings (first realized in the current year) to enhance the security of FTB's Internet servers. Centralized Reverse Proxy Services will provide additional protection against unauthorized access via the Internet by allowing for only one well-guided point of entry and thereby resolving several data security vulnerabilities.

**Staff Comments:** Staff needs additional information from the BOE concerning the relationship of this request to the taxes.gov website.

**Staff Recommendation:** HOLD OPEN.

***VOTE-ONLY ISSUES:***

**1. BCP: Child Support Automation System.** The department requests a budget reduction of \$99,208,000 (\$33.7 million General Fund) to reflect reduced project costs for the implementation of the CCSAS project. The CCSAS is a multi-year information technology project to develop, implement, and maintain an automated child support tracking system. This request conforms to the timelines and findings of the latest project Special Project Report and progress reports filed with the Federal government.

**2. BCP: Elimination of Tax Clearance Certificate (AB 2341).** The Administration proposes to recognize savings of \$1.3 million General Fund and a reduction of 18 positions to reflect the implementation of Chapter 773, Statutes of 2006 (AB 2341, Villines). This bill eliminated a requirement for businesses to obtain a tax clearance when they closed down and in some cases suspends liability for the annual or minimum franchise tax.

**STAFF RECOMMENDATION ON VOTE-ONLY ITEMS:** APPROVE AS BUDGETED.

**VOTE on Vote-Only Issues 1-2:**

## DISCUSSION ITEMS—DEPARTMENTS

### 1760 Department of General Services

The Department of General Services (DGS) provides management review and support services to state departments. The DGS is responsible for the planning, acquisition, design, construction, maintenance, and operation of the state's office space and properties. It is also responsible for the procurement of materials, data processing services, communication, transportation, printing, and security. The Governor's budget funds 3,703 positions (including 67.5 new positions) and \$1.2 billion in expenditures, of which \$9.2 million is from the General Fund.

#### ***VOTE-ONLY ISSUES:***

**1. Capital Outlay BCP: Renovation of H and J Buildings—Patton State Hospital.**

The budget includes \$4.0 million (Earthquake Safety Bond Funds) for preliminary plans and working drawing phases of a project to create intermediate "swing space" and seismically renovate four buildings at the hospital. Due to growth in the hospital population at all state hospitals, the Department of Mental Health is unable to relocate the patients during construction.

**2. Baseline Funding Adjustment for Natural Gas Services.** The budget includes \$63.1 million (Service Revolving Fund) to permanently increase the department's baseline natural gas budget up to \$234.3 million, the expenditure level of the current year. This increase is driven by the state's expanded use of natural gas energy, growth in the number of state agency natural gas consumers, and the price of natural gas. The Natural Gas Services Program began in 1997-98 with a budget of \$27 million and has been augmented five times since then, reaching the current level of \$234.3 million.

The CY increase (\$63m) came in a provision request. This request makes that additional funding permanent. The cost factors driving the anticipated increase are number of sites, usage, and price.

**3. Central Heating and Cooling Plant, Sacramento.** The budget includes an augmentation of \$380,000 (Service Revolving Fund) in the budget year and 2008-09 for private consultant services related to water quality monitoring, regulatory compliance and consultation, and special environmental studies for the waste discharge into the Sacramento River. Unless the department submits meets these water quality requirements they may be subject to penalties and fines approaching \$25,000/day. The department expects that plant renovations to be completed in 2009 will conclude the need for these consulting services.

**4. California Public Utilities Commission Building: Special Repairs and Maintenance.** Pursuant to a Memorandum of Understanding between the California Public Utilities Commission and the Department of General Services, the budget includes \$3.1 million for special repairs and deferred maintenance at the Edmund G. Brown building in San Francisco.

**5. Building Maintenance and Operations for Department of Justice Lab Facility, Santa Rosa.** The budget includes \$180,000 ongoing to provide custodial, engineering,



and grounds keeping services at the Department of Justice's new lab in Santa Rosa. Construction on this facility is nearly completion and it is expected to be ready for occupancy on July 1, 2007.

**6. CalTrans Building Operations and Maintenance.** The budget includes \$235,000 (Service Revolving Fund) ongoing and three positions to provide building operations and maintenance services at three properties in Sacramento.

**7. Earthquake Safety Public Buildings Rehabilitation Bond Fund.** The Administration requests to eliminate two positions and \$651,000 in expenditure authority for the Earthquake Safety Public Buildings Rehabilitation Bond Fund. A position to handle project management duties for eight proposed earthquake safety projects would be funded from the Architectural Revolving Fund.

**8. Energy Contract Service Attorney.** The Administration requests one attorney position to provide in-house legal services for energy-related legal issues. The Department of General Services' believes their growing involvement in energy purchases and programs necessitates increased staff legal support.

**STAFF RECOMMENDATION ON VOTE ONLY ITEMS:** APPROVE AS BUDGETED.

**VOTE on Vote-Only Issues 1-8:**

#### ***DISCUSSION ISSUES:***

**1. Seismic Safety Expenditures.** The Department of General Services administers the State's Seismic Retrofit Program. The department's criteria and evaluation process are used to assess seismic risk and assign priorities for those buildings deemed most vulnerable to a major earthquake.

Last year, the DGS submitted nine capital outlay BCPs requesting approximately \$31.5 million General Fund over two years for seismic safety-related expenditures for state buildings. The Legislature approved \$1.7 million in 2006-07 to fund preliminary plans for each of these projects and requested the Administration to report on the outlook for alternative fund sources for later phases of the projects. This year, the Governor's Budget proposes a new funding source for seven of the projects and defers two projects for one year. Altogether, these BCPs will cost approximately \$2.1 million Earthquake Safety Bond Fund (approximately \$500,000 more than was originally budgeted in 06-07), to develop working drawings for the eight projects. Following are descriptions of those BCPs and the associated current year, budget year, and out-year General Fund commitment.

<b>Description of Capital Outlay BCP</b>	<b>2006-07 GF Expenditures (Dollars in Thousands)</b>	<b>2007-08 Earthquake Safety Bond Fund Expenditures (Dollars in Thousands)</b>	<b>Out-Year GF Expenditures (Dollars in Thousands)</b>
<b>1. Department of Veteran's Affairs Yountville East Ward</b> The Department of General Services requests \$336,000 General Fund for preliminary plans and working drawings for an earthquake retrofit of the East Ward of the Veteran's Home in Yountville. DGS has determined this structure to be seismically deficient.	<b>Preliminary Plans: \$141</b>	<b>Deferred (orig. \$195)</b>	<b>Working Drawings: \$195</b> <b>+\$,2040= 2,235*</b>
<b>2. CDC Tehachapi Chapels Facility (Building H)</b> The Department of General Services requests \$326,000 General Fund for preliminary plans and working drawings for the Chapels Facility (Building H) at the California Department of Corrections Tehachapi facility. DGS has determined this structure to be seismically deficient.	<b>Preliminary Plans: 160</b>	<b>Working Drawings: 200 (orig. 166)</b>	<b>1,898 (orig. 1,660)</b>
<b>3. Stockton National Guard Armory</b> The Department of General Services requests \$370,000 General Fund for preliminary plans and working drawings for the Stockton National Guard Armory. DGS has determined this structure to be seismically deficient.	<b>Preliminary Plans: 185</b>	<b>Deferred (orig. 185)</b>	<b>Working Drawings: 185</b> <b>+1,446= 1,631*</b>
<b>4. Vocational Building at the California Correctional Center in Susanville</b> The Department of General Services requests \$336,000 General Fund for preliminary plans and working drawings for the Vocational Building at the California Correctional Center in Susanville. DGS has determined this structure to be seismically deficient.	<b>Preliminary Plans: 143</b>	<b>Working Drawings: 331 (orig. 193)</b>	<b>5945 (orig. 4,862)</b>
<b>5. Vacaville Correctional Medical Facility, Wings U, T, and V</b> The Department of General Services requests \$855,000 General Fund for preliminary plans and working drawings for the Vacaville Correctional Medical Facility, Wings U, T, and V. DGS has determined these structures to be seismically deficient.	<b>Preliminary Plans: 403</b>	<b>Working Drawings: 688 (orig. 452)</b>	<b>11332 (orig. 8,756)</b>
<b>6. California Institute for Women Infirmaries at Frontera and Corona – Walker Clinic</b> The Department of General Services requests \$391,000 General Fund for preliminary plans and working drawings for the California Institute for Women—Walker Clinic at Frontera and Corona. DGS has determined these structures to be seismically deficient.	<b>Preliminary Plans: 203</b>	<b>Working Drawings: 255 (orig. 188)</b>	<b>2,522 (orig. 2,143)</b>
<b>7. California Institute for Women Infirmaries at Frontera and Corona-Infirmiry Building</b> The Department of General Services requests \$369,000 for preliminary plans and working drawings for the California Institute for Women Infirmary at Frontera and Corona. DGS has determined these structures to be seismically deficient.	<b>Preliminary Plans: 190</b>	<b>Working Drawings: 244 (orig. 179)</b>	<b>2,272 (orig. 1,920)</b>

<b>8. Department of Mental Health Metropolitan State Hospital – Wards 206 and 208 in Norwalk, California</b> The Department of General Services requests \$460,000 General Fund for preliminary plans and working drawings for the Department of Mental Health Metropolitan State Hospital – Wards 206 and 208 in Norwalk, California. DGS has determined these structures to be seismically deficient.	<b>Preliminary Plans: 215</b>	<b>Working Drawings: 363 (orig. 245)</b>	<b>4,074 (orig. 3,222)</b>
<b>9. California Department of Corrections Jamestown Buildings E and F</b> The Department of General Services requests \$224,000 General Fund for preliminary plans and working drawings for the California Department of Corrections Jamestown Buildings E and F. DGS has determined these structures to be seismically deficient.	<b>Preliminary Plans: 102</b>	<b>Working Drawings: 168 (orig. 122)</b>	<b>1,394 (orig. 1,193)</b>
<b>10. Program Management Services</b> The Department of General Services requests \$500,000 from the Earthquake Safety and Public Building Rehabilitation Fund of 1990 (Fund 0768) to administer the Seismic Retrofit Program to administer the state's Seismic Retrofit Program. These staff provide expertise in project management and coordination of projects that are funded by other DGS client departments. The Department expects to request \$700,000 General Fund in 2007-08 and \$675,000 in 2008-09 for this activity.	<b>\$0</b>	<b>\$0</b>	<b>\$700</b>
<b>TOTAL SPENDING:</b>	<b>\$3,667</b>	<b>\$2,249</b>	<b>\$34,003 (\$27,942)</b>

\*The out-year costs for these deferred projects represent 06-07 estimates and are likely understated.

**Staff Comments:** According to the Governor's Five-Year Infrastructure Plan, DGS has identified 24 buildings with "critical infrastructure deficiencies." Prior to these proposals, seismic retrofit projects for state buildings were funded out of proceeds from the 1990 Seismic Bond Act. That bond provided \$250 million in general obligation bonds for the purpose of earthquake safety improvements to state buildings. The bond funds have been depleted to fix the most urgently needed seismic repairs (seismic Levels VI and VII), and now the DGS plans to continue its retrofit of all Level V buildings. Without the identification of another fund source or adjustment to the current schedule, seismically retrofitting all of these structures will cost in excess of \$170 million General Fund over the five-year period. The state has made no statutory commitment to completing these seismic retrofit projects by a date certain.

While the Administration has identified a special funding source for seven of the above projects in budget year (1990 Seismic Bond Act proceeds remaining in the Earthquake Safety Bond Fund), staff notes that an alternative to the General Fund has not been identified for projected out-year expenditures estimated to exceed \$34 million. According to the DGS, the anticipated Earthquake Safety Bond Fund fund balance entering fiscal year 2007-08 will be approximately \$9.4 million. Less the \$2.2 million contained in this request, the remaining bond funds will be insufficient to cover out-year costs for these retrofit projects.

In addition to the seven projects identified above, the DGS is also requesting \$4.8 million (various special funds) in budget year for a related seismic project, the Sacramento Public Safety Communications Decentralization. Following is a description of the project, the budget year cost, and the associated out-year General Fund commitment.

Description of Capital Outlay BCP	2007-08 Special Fund Expenditures (Dollars in Thousands)	2008-12 GF Expenditures (Dollars in Thousands)
<b>Sacramento Public Safety Communications Decentralization</b> The department requests \$4.8 million (various funds) to commence a design phase for the relocation of two critical public safety communications from the top floor of the Resources Building in Sacramento. The Administration seeks to relocate this type of facility from the downtown area to a more seismically sound structure, at a cost of \$29.5 million General Fund.	\$4,829	\$24,692

The DGS indicates the intended fund source to replace the Earthquake Rehabilitation Bond Fund is the Governor's proposed infrastructure bonds intended for the November 2008 ballot. Staff notes that similar bonds were expected when the DGS submitted the ten seismic retrofit BCPs last year, but the bonds failed to make the November 2006 ballot.

Notwithstanding the uncertainty of a future funding source, there are sufficient special funds in budget year to allow these seismic safety projects to move forward, ensuring that existing plans do not go "stale." Staff notes, the Legislature will have the opportunity to review each of these projects again when the next phase of funding is requested.

**Staff Recommendation:** APPROVE seismic safety expenditures A-F, but HOLD OPEN items G & H pending additional clarification from the DGS on how these requests fit with the Governor's proposal to transfer women inmates from these facilities.

**A. Capital Outlay BCP: Sacramento Public Safety Communications Decentralization.** The budget includes \$4.8 million (various funds) to commence a design phase for the relocation of two critical public safety communications from the top floor of the Resources Building in Sacramento. The Administration seeks to relocate this type of facility from the downtown area to a more seismically sound structure, at a cost of \$29.5 million General Fund.

**VOTE:**

**B. Capital Outlay BCP: Structural Retrofit—Sierra Conservation Center, Department of Corrections Jamestown Facility.** The Department of General Services requests \$168,000 (Earthquake Safety Bond Funds) for working drawings for the California Department of Corrections Jamestown Buildings E and F. DGS has determined these structures to be seismically deficient. Total project costs are expected to be \$1.7 million.

**VOTE:**

**C. Capital Outlay BCP: Vacaville Correctional Medical Facility, Wings U, T, and V.** The Department of General Services requests \$688,000 (Earthquake Safety Bond Funds) for working drawings for the Vacaville Correctional Medical Facility, Wings U, T, and V. DGS has determined these structures to be seismically deficient. Total project costs are expected to be \$3.0 million over four years.

**VOTE:**

**D. Capital Outlay BCP: Vocational Building at the California Correctional Center in Susanville.** The Department of General Services requests \$331,000 (Earthquake Safety Bond Funds) for preliminary plans and working drawings for the Vocational Building at the California Correctional Center in Susanville. DGS has determined this structure to be seismically deficient. Total project costs are expected to be \$6.5 million over three years.

**VOTE:**

**E. Capital Outlay BCP: Department of Mental Health Metropolitan State Hospital – Wards 206 and 208 in Norwalk, California.** The Department of General Services requests \$363,000 (Earthquake Safety Bond Funds) for working drawings for the Department of Mental Health Metropolitan State Hospital – Wards 206 and 208 in Norwalk, California. DGS has determined these structures to be seismically deficient. Total project costs are expected to be \$4.4 million over three years.

**VOTE:**

**F. Capital Outlay BCP: CDC Tehachapi Chapels Facility (Building H).** The Department of General Services requests \$200,000 (Earthquake Safety Bond Funds) for preliminary plans and working drawings for the Chapels Facility (Building H) at the California Department of Corrections Tehachapi facility. DGS has determined this structure to be seismically deficient. Total project costs are expected to be \$2.1 million over three years.

**VOTE:**

**G. Capital Outlay BCP: Structural Retrofit for the Walker Clinic.** The Department of General Services requests \$225,000 (Earthquake Safety Bond Funds) for working drawings for the California Institute for Women—Walker Clinic at Corona. DGS has determined this structure to be seismically deficient. Total project costs are expected to be \$3.0 million over three years.

**VOTE:**

**H. Capital Outlay BCP: California Institute for Women Infirmaries at Corona-Infirmery Building.** The Department of General Services requests \$224,000 (Earthquake Safety Bond Funds) for working drawings for the California Institute for Women Infirmery at Corona. DGS has determined this structure to be seismically deficient. Total project cost is expected to be \$2.7 million over three years.

**VOTE:**

**2. BCP: Secretary of State Building: Conversion to Individual Rate Building.** The Administration seeks \$14.1 million (Service Revolving Fund) to (a) repair the Secretary of State (SOS) headquarters; and (b) transition the costs of debt service and set up a

building rental rate for the SOS to include a six-cents special repairs reserve account to fund future repairs to the building. The department asserts that the SOS does not have the expertise or funds available to ensure the building is properly maintained and repaired and has asked the DGS to manage repayment of debt service and repairs for the building.

**Staff Comments:** The Secretary of State/Archives Building was financed through a lease-purchase revenue bond, and the SOS is currently responsible for the debt service for this building. This arrangement is atypical for state-owned facilities, as bond-funded state facilities are usually set up as Individual Rate buildings with a rental rate established specific to the building. In this respect, the request would create an arrangement more consistent with the state's policy on operating state office buildings.

The SOS headquarters is approximately 12 years old, and the roof (which now leaks) was supposed to have a lifespan of at least 15 years. Although staff does not dispute that the requested repairs are necessary, the Subcommittee may wish to inquire with the SOS and/or Department of General Services as to whether the requested money will be spent on higher quality construction materials than were originally used.

This item has a conforming issue in the SOS budget (see page 9).

**Staff recommendation:** APPROVE as budgeted.

**3. BCP: Fleet Analysis and Reporting System.** The budget includes a request for two positions and \$614,000 in 2007-08 (Service Revolving Fund) and four positions and \$1.3 million (Service Revolving Fund) in 2008-09 to continue development of a Fleet Analysis and Reporting System to improve tracking state vehicles. Once fully implemented, the department expects revenues in excess of \$2 million from surplus vehicle sales.

**Staff Comments:** Although this project has not been fully implemented, the Legislature will have an interest in the revenues generated and any savings realized. The DGS should work with the LAO to develop performance measures so that the Subcommittee may adopt Budget Bill Language requiring the DGS to report on project outcomes.

**Staff Recommendation:** HOLD OPEN.

**4. BCP: Budget Bill Language for Tenant Improvements on DGS Individual Rate Buildings.** The Administration seeks to establish budget bill language to allow the department to spend sinking funds without submission of a budget change proposal for tenant improvements or utilization of vacant state-owned office space. In 2005-06 the Legislature authorized the establishment of a \$.03 sf/per month payment to a sinking fund for tenant improvements. Spending from that fund is approved via a budget change proposal. The department believes the length of time necessary for approval of a BCP is too long and delays the backfilling of vacated state office space. Since departing occupants are required to pay for space until it is re-leased, this authority would presumably relieve them sooner of their rental obligation.

**Staff Comments:** The DGS can be provided a modicum of flexibility, as requested, without resorting to notifying the Legislature only after the fact. The LAO recommends

the following revised Budget Bill Language, which would require 30-day notice to the Legislature:

### **Revised Provisional Language**

*9. The Director of the Department of Finance is authorized to increase this item for purposes of funding tenant improvement projects to facilitate the backfill of vacant space within stand-alone DGS bond funded office buildings. This provision shall only be used to augment expenditure authority for DGS stand-alone individual rate office buildings where a \$0.03 tenant improvement surcharge has been approved by the Department of Finance and is included in the monthly rental rate. Department of Finance approval is contingent upon justification for the proposed tenant improvement projects to be provided by the Department of General Services including an analysis of cost impacts and how the tenant improvements will improve the state's utilization of the facility. Any augmentation made in accordance with this provision shall not result in an increase in any rate charged to other departments for services without the prior written consent of the Department of Finance. Any augmentation made pursuant to this provision may be authorized not sooner than 30 days after notification in writing of the necessity therefore is provided ~~shall be reported in writing to the chairpersons of the fiscal committees of each house and the Chairperson of the Joint Legislative Budget Committee within 30 days of the date the augmentation is approved.~~*

**Staff Recommendation:** APPROVE the revised Budget Bill Language recommended by the LAO.

**5. BCP: Office of Administrative Hearings.** The Administration requests to make permanent 73 limited-term Office of Administrative Hearings (OAH) attorney and support positions. These positions don't expire until June 2008 so there will be no fiscal impact in the budget year. The cost to make these positions permanent will be \$9.2 million (Service Revolving Fund) ongoing starting in 2008-09. These staff provide services for the Special Education Dispute Resolution Program, which mediates between school districts and parents of developmentally disabled children. The department has faced difficulty in fully staffing for this program due to the limited-term nature of the existing positions. Funding for these positions is provided through an interagency agreement with the Department of Education (CDE).

**Staff Comments:** State and Federal law provides that all children with disabilities are entitled to a free and appropriate education and all eligible pupils and their parents are entitled to procedural safeguards with respect to disagreements concerning decisions about their children's public education. Previously, the CDE contracted with McGeorge Law School to provide required mediation and due process services; however, subsequent to a 2005 court decision (PSC No. 04-50), the state was instructed to transition these services without further delay to state workers. Subsequently, the OAH received 73.0 three-year limited-term positions and funding of \$9.2 million to administer the program until June 30, 2008. However, the DGS indicates the OAH has experienced difficulty filling the positions, including only 28 of 40 Administrative Law Judges (ALJ) and 2 of 4 Presiding ALJs.

Given that the services provided under the program are required by law and the ALJ positions that staff the program require a high-level of expertise (generally difficult to recruit and retain as limited-term), the DGS makes a strong case for the 73 positions to

be converted to permanent. However, the request states, but does clearly substantiate the claim that the OAH “has successfully demonstrated for the last 13 months that it can, and has, appropriately administered the program.” The Subcommittee should request the DGS to work with staff to provide clear documentation of the outcomes claimed and report back at a future hearing regarding the OAH's plan to address ongoing workload.

**Staff Recommendation:** HOLD OPEN.

**6. BCP: School Facilities Program Staffing (AB 127).** The Administration requests \$575,000 (2006 School Facilities Fund) and seven permanent positions to support the implementation of Chapter 35, Statutes of 2006 (AB 127). This legislation enabled the construction of new schools to accommodate enrollment growth and modernize existing schools by providing \$7,329,000,000 in general obligation bonds. The proposed staff would better enable the Office of Public School Construction (OPSC) to support this construction effort and accomplish related tasks described in AB 127.

**Staff Comments:** The DGS indicates the bond funds supporting this program will be expended over a period of 7-9 years. Therefore, staff has requested, and DGS has committed to providing, a multi-year staffing plan so that the Legislature may track the use of approved positions and ensure that, upon exhaustion of bond proceeds, the positions are eliminated or redirected as deemed appropriate.

**Staff Recommendation:** HOLD OPEN pending review of staffing plan recently submitted by the DGS.

**7. BCP: Conversion of Expiring Positions to Permanent in Office of Public School Construction.** The Administration requests \$1.1 million (\$331,000 General Fund) ongoing to make permanent 13 expiring positions (June 30, 2007) in the Office of Public School Construction (OPSC), Fiscal and Program Services Office. The OPSC asserts that not extending these positions would slow the processing of construction applications for the School Facilities Program. Twelve of these positions were approved in 2004-05 with the understanding that the DGS would seek additional positions as workload needs were refined.

**Staff Comments:** Based on the workload analysis provided, these positions are justified on an ongoing basis

**Staff Recommendation:** APPROVE as budgeted.

**8. BCP: California Highway Patrol (CHP) Enhanced Radio System.** The budget includes 14 positions and \$4.9 million (Service Revolving Fund) in 2007-08 and \$9.4 million (Service Revolving Fund) in 2008-09 to facilitate the implementation of a new public safety radio communications system. All costs of this Budget Change Proposal have previously been identified and approved in a CHP BCP and will be recovered through billing the CHP.

**Staff Comments:** This issue is being heard as part of the CHP budget.

**Staff Recommendation:** HOLD OPEN.



**9. BCP: Support for Department of Finance's FISCal Project.** The budget includes 18 positions and \$1.9 million (Service Revolving Fund) to support implementation of the Department of Finance's FISCal project. This project seeks to update budget-related IT infrastructure throughout state agencies and the Legislature. The total FISCal request for the budget year (directed by the Department of Finance) is \$35.7 million General Fund and 238 positions.

**Staff Comments:** This issue is being heard as part of the Department of Finance budget. The Subcommittee will likely want to conform to actions taken on that budget.

**Staff Recommendation:** HOLD OPEN.

**10. Informational Issue: Late Reports.** The DGS submission of late reports to the Legislature has become epidemic. For example, staff received a notification letter, dated December 1, 2006, that the "Transformation of the Office of State Publishing" report was posted online. The report was due to the Legislature September 30, 2006.

**Staff Comments:** The DGS acknowledges failures in its internal processes have lead to late reporting to the Legislature, and indicates steps are being taken to remedy the problem. The DGS should provide the Subcommittee with a summary of actions taken.

**Staff Recommendation:** Instruct the DGS to, at a minimum, provide the Joint Legislative Budget Committee with at least one hard copy of all reports until the current problems are resolved and the Legislature approves electronic-only transmission again.

**11. Informational Issue: Generic Drug Procurement.** The DGS, the Department of Health Services, and the California Public Employees' Retirement System are the three primary departments that contract for prescription drugs in the state. The DGS drug procurement responsibilities include the Department of Corrections (CDRC), state hospitals, and state developmental centers.

**Staff Comments:** A recent report from the Receiver for Prison Health System, Robert Sillen, alleges that the DGS overspends in its drug procurement practices, and the Subcommittee would like to hear the department's response to these allegations. Additionally, the Subcommittee is interested in learning more about the DGS' procurement practices with regard to generic pharmaceuticals.

As patents expire for drugs, manufacturers frequently enter the market to supply generic versions (of the same or similar chemical compounds), thereby increasing competition among suppliers and driving down drug prices. For example, under patent, a unit of Prozac originally sold for approximately \$9, but the price settled at approximately 9¢ once the patent expired and generic production began.

Given the potential for the state to realize significant savings by purchasing generic drugs that offer the same benefits as brand-names, the Subcommittee may wish to request the DGS to provide background on its drug procurement practices and specifically provide information on current rates of generic drug utilization.

**12. Informational Issue: Information Technology Procurement.** On February 22, the full Budget Committee held an overview hearing on the State's Information Technology Management Process. The hearing covered many topics including: (1)

understanding the IT management process and the roles of the various entities involved – the requesting departments, Department of Finance, and the DGS; (2) the role of the newly created Chief Information Officer; and (3) lessons learned that could inform the future decision making of the Legislature.

More specifically, the issue of IT procurement was discussed on February 22. It has been publicly acknowledged that in some instances the IT procurement process is overly cumbersome – which at times may lead to very little, if any, competitive bidding of projects.

Chapter 556, Statutes of 2005 (SB 954, Figueroa) required the DGS to establish specified policies and guidelines for the procurement of information technology goods and services on or before January 1, 2007.

On January 5, 2007, the DGS issued a Management Memo providing a conceptual road map for the IT procurement process, explaining the different stages and the major considerations in each, and a framework to think about IT acquisitions.

**Staff Comments:** The DGS should briefly inform the Subcommittee of the various steps that are being taken to implement SB 954, with emphasis on the balance necessary for accountability (policy, legal, and procedural) at the state level, while trying to provide a modicum of flexibility to promote greater competition of IT projects bids. Within this context, the DGS should also provide the Subcommittee with its thoughts on risk assessment.